

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 XMB-02

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 5924

INFO AMEMBASSY SANTO DOMINGO

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E.O. 11652: N/A

TAGS: ENRG, EFIN, VE, DR

SUBJECT: PETROLEUM-VENEZUELAN FINANCING OF DOMINICAN OIL IMPORTS

REF: SANTO DOMINGO 5765

1. ACHILLES VILORIA, CHIEF, DEPARTMENT OF INTERNATIONAL COOPERATION, VENEZUELAN INVESTMENT FUND (FIV) CONFIRMED TERMS OF FINANCING PACKAGE CONTAINED REFTEL. HE SAID FIV WOULD BE GOV INSTRUMENTALITY THROUGH WHICH FUNDING WOULD BE MADE AVAILABLE TO GOVERNMENT OF DOMINICAN REPUBLIC.

2. ACCORDING TO VILORIA, FIV WILL USE DOLLARS AND BOLIVARES TO PURCHASE BOND-LIKE OBLIGATIONS ISSUED BY CENTRAL BANK OF DOMINICAN REPUBLIC. THESE WOULD BE NEGOTIABLE INSTRUMENTS. WHILE FIV INTENDS TO HOLD THEM TO MATURITY, IT RETAINS THE OPTION TO SELL THEM ON INTERNATIONAL MONEY MARKETS. GODR REPORTEDLY ACCEPTED THIS CONDITION WITHOUT DIFFICULTY.

3. VILORIA AGREED THAT TERMS OF LOAN WERE QUITE CLOSE TO COMMERCIAL IN NATURE. HE REMINDED US THAT BY LAW FIV IS REQUIRED TO EARN RETURN ON FOREIGN INVESTMENTS NOT LESS FAVORABLE THAN THAT EARNED BY IDB OR OTHER INTERNATIONAL FINANCIAL INSTITUTIONS. HE ADMITTED THAT 8 PERCENT WAS LESS THAN CURRENT IDB LOAN RATE, BUT POINTED OUT

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THAT ARRANGEMENT WITH GODR WAS NOT, STRICTLY SPEAKING, A

LOAN, BUT RATHER A CONTRACT TO PURCHASE NEGOTIABLE SECURITIES UP TO A LIMIT OF \$60 MILLION.

4. IN SEPARATE CONVERSATION WITH LOCAL REPRESENTATIVE OF FIRST NATIONAL BANK OF BOSTON, WE LEARNED THAT PURCHASES OF PETROLEUM UNDER NEW FINANCING SCHEME WILL BE CHANNELLED THROUGH LAGOVEN, EXXON INTERNATIONAL AND EXXON IN DOMINICAN REPUBLIC. FIRST BOSTON HAS BEEN ASKED BY EXXON INTERNATIONAL HEADQUARTERS IN CORAL GABLES TO OPEN LETTER OF CREDIT IN BOLIVARES TO COVER INTERIM FINANCING. FIRST BOSTON'S REPRESENTATIVE SAID LETTERS OF CREDIT TO COVER OIL EXPORTS USUALLY DOMINATED IN DOLLARS, AND REQUEST FOR DENOMINATION IN BOLIVARES WAS UNIQUE IN HIS EXPERIENCE. HE WAS UNABLE TO EXPLAIN THIS DEVELOPMENT, BUT SPECULATED THAT IT MIGHT PRESAGE MOVEMENT BY GOV AWAY FROM DENOMINATING PETROLEUM EXPORTS EXCLUSIVELY IN DOLLARS AND TOWARD DENOMINATION OF AT LEAST SOME CONTRACTS IN BOLIVARES.

5. COMMENT-WE ARE INTRIGUED BY POSSIBILITY THAT GOV, AS A MATTER OF POLICY, MAY HAVE DECIDED TO DENOMINATE AT LEAST SOME PETROLEUM SALES CONTRACTS IN BOLIVARES, AND ARE TRYING TO DEVELOP MORE INFORMATION ON THIS SUBJECT. IF TRUE, THIS WOULD INTRODUCE CONVERSION RISK INTO PETROLEUM EXPORT CALCULATIONS AND COULD STIMULATE DEVELOPMENT OF FORWARD MARKET IN BOLIVARES. IN ADDITION, SINCE PETROLEUM IS LEADING FOREIGN EXCHANGE EARNER FOR VENEZUELA, DENOMINATION OF SALES CONTRACTS IN BOLIVARES WOULD GIVE GOV MORE LEVERAGE TO INFLUENCE DOMESTIC ECONOMIC TRENDS THROUGH REVALUATION OR DEVALUATION OF BOLIVAR.
VAKY

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Message Attributes

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